

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 CEA-01 STR-05 NEA-10
IO-13 AGRE-00 /115 W
-----129387 291158Z /11

R 290921Z NOV 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8518

INFO AMEMBASSY PORT MORESBY

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USADB

FOR NAC AGENCIES

E.O. 11652: NA

TAGS: EAID, EFIN, RP

SUBJECT: ADB HIGHLANDS ROAD IMPROVEMENT PROJECT (PAPUA NEW GUINEA)

SUMMARY: ADB MANAGEMENT PROPOSES \$15.0 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES FOR HIGHLANDS
ROAD IMPROVEMENT PROJECT IN PAPUA NEW GUINEA (PNG). PROPOSED
LOAN WOULD FINANCE FOREX COSTS OF IMPROVING MAJOR
TRANSPORT ARTERY CONNECTING COUNTRY'S MAIN DEEPWATER PORT
AND DENSELY POPULATED HIGHLANDS REGION. PROJECT WOULD
COMPRISE (I) IMPROVEMENT OF 112 KM OF ROAD AND (II) PROVIDING
ENGINEERING SERVICES FOR SUPERVISION OF CIVIL WORKS. PROJECT
CONSIDERED TO BE TECHNICALLY AND ECONOMICALLY SOUND. RECOMMEND
FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R130-77 WITH ATTACHMENTS POUCHED
ADDRESSEES NOVEMBER 23. BOARD CONSIDERATION SCHEDULED
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DECEMBER 13.

2. ROADS TO BE IMPROVED UNDER THE PROPOSED PROJECT
TRAVERSE MARKHAM VALLEY IN NORTHERN MAINLAND PROVINCE
OF MOROBE AND LINK THE ROAD NETWORK IN CENTRAL
HIGHLANDS TO PORT CITY OF LAE. ACCESS TO FIVE
CENTRAL HIGHLANDS PROVINCES OF ENGA (ARA: 12,800 SQ.

KM), SOUTHERN (23,800 SQ. KM.), WESTERN (8,500 SQ. KM.), EASTERN HIGHLANDS (11,200 SQ. KM.), CHIMBU (6,100 SQ. KM.) WOULD BE GREATLY IMPROVED AS A RESULT OF PROJECT.

3. MANY OF HIGHLANDS' POPULATION OF 1.1 MILLION ARE ENGAGED IN SUBSISTENCE AGRICULTURE, BUT EXPORT-ORIENTED CASH CROPPING, PARTICULARLY OF COFFEE AND, TO A LESSER EXTENT TEA, HAS DEVELOPED INTO A SIGNIFICANT SOURCE OF REGIONAL INCOME. IN 1975/76, APPROXIMATELY 85 PERCENT OF NATIONAL PRODUCTION OF COFFEE WAS PRODUCED IN HIGHLANDS, PRIMARILY IN EASTERN AND WESTERN HIGHLANDS AND CHIMBU. SMALLHOLDERS, WHO NUMBER ABOUT 175,000 (AVERAGE PLOT SIZE: 1/4 HEACARE), PRODUCED ABOUT TWO-THIRDS OF HIGHLANDS COFFEE OUTPUT -- EXPATRIATE-LEASED PLANTATIONS PRODUCING REMAINDER. TEA PRODUCTION WHICH HAS GROWN RAPIDLY IN RECENT YEARS IN WESTERN HIGHLANDS, AMOUNTED TO 5,000 TONS IN 1975/76 AND ALTHOUGH PRODUCTION IS LARGELY CONFINED TO PLANTATIONS, SMALLHOLDERS OUTPUT IS EXPECTED TO INCREASE.

4. MARKHAM VALLEY EXTENDS SOME 150 KM FRO LAE TO THE RAMU VALLEY IN MADANG PROVINCE AND ENCOMPASSES SOME 1,130 SQ. KM. VALLEY'S POPULATION OF ABOUT 20,000 IS INVOLVED PRIMARILY IN SUBSISTENCE AGRICULTURE (BANANAS, ROOT CROPS, COCONUTS AND VEGETABLES), AND SMALL HOLDERS HAVE YET TO CONCENTRATE ON COMMERCIAL LIMITED OFFICIAL USE

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AGRICULTURE. VALLEY'S CONSIDERABLE AGRICULTURAL POTENTIAL REMAINS LARGELY UNEXPLOITED EXCEPT FOR A NUMBER OF PLANTATIONS AND RANCHES OPERATED BY EXPATRIATES. RURAL ECONOMIC ACTIVITY IN MARKHAM VALLEY IS, HOWEVER, CONSIDERABLY MORE DIVERSE THAN IN HIGHLANDS WITH SMALLHOLDERS INVOLVED TO SOME EXTENT IN BEEF CATTLE, POULTRY, SORGHUM, PEANUTS AND MAIZE PRODUCTION IN ADDITION TO COFFEE AND VEGETABLES. THE MAJORITY OF THIS PRODUCTION IS MARKETED IN LAE, A CITY OF APPROXIMATELY 72,000 WHICH IS SOLE DISTRIBUTION POINT FOR IMPORT AND EXPORT TRAFFIC BASED ON MOROBE PROVINCE AND HIGHLANDS.

5. HIGHLANDS ROAD IS ONLY ROAD CONNECTING FERTILE, DENSELY POPULATED HIGHLANDS REGION WITH PORT FACILITIES AT LAE. IT IS, THEREFORE, A VITAL FACTOR IN THE REGION'S SOCIAL AND ECONOMIC DEVELOPMENT. HOWEVER, ABOUT 112 KM. OF 170 KM. MARKHAM VALLEY SECTION IS SURFACED WITH RIVER

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INFO OCT-01 EA-10 ISO-00 CIAE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 IO-13 NEA-10 AGRE-00 AID-05 COME-00 EB-08

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-05

CEA-01 /113 W

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FM AMEMBASSY MANILA

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FOR NAC AGENCIES

GRAVEL WHICH LCAK NECESSARY FINE PARTICLES TO PROVIDE A STABLE MATRIX OF MINERAL AGGREAGTE UNDER PREVAILING TRAFFIC FLOWS AND CLIMATIC CONDITIONS. MANY OF THESE GRAVELS CONTAIN HIGH PROPORTIONS OF LARGE STONES WHICH WORK THEIR WAY TOTHE SURFACE AS A RESULT OF TRAFFIC ACTION AND CLIMATE. GIVEN SUCH MATERIALS, AS WELL AS EXISTING AND FORECAST TRAFFIC VOLUMES ON ROAD, A SITUATION HAS BEEN REACHED WHERE IT IS MORE ECONOMICAL TO UNDERTAKE CAPITAL INVESTMENTS FOR CONSTRUCTION OF A BITUMINOUS PAVEMENT ON THE ROAD THEN TO CONTINUE ACCEPTING HIGH (AND INCREASING) VEHICLE OPERATING COSTS AND ROAD MAINTENANCE COSTS.

6. PROPOSED PROJECT CONSISTS OF: (I) IMPROVEMENT OF 112 KM. OF HIGHLAND ROAD BETWEEN ERAP RIVER AND YUNG CREEK, NEAR KASSAM PASS, TO A TWO-LANE STANDARD WITH A

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BITUMINOUS SURFACE-DRESSED PAVEMENT, INCLDUING CONSTRUCTION OF NECESSARY NEW BRIDGES AND REPAIRS OF OTHER EXISTING BRIDGES; AND (II) THE PROVISION OF

ENGINEERING SERVICES FOR THE SUPERVISION OF RELATED CIVIL WORKS.

7. TOTAL COST OF PROJECT IS \$23.8 MILLION EQUIVALENT. PROPOSED ADB LOAN OF \$15 MILLION EQUIVALENT FROM ORDINARY CAPITAL RESOURCES WILL FINANCE FOREX COST OF (I) CIVIL WORKS (\$10.96 MILLION,) (II) ENGINEERING SERVICES (\$0.52 MILLION,) (III) CONTINGENCIES (\$1.10 MILLION), AND (IV) PRICE ESCALATION (\$2.42 MILLION). PROPOSED TERMS ARE 24 YEARS AMORTIZATION PERIOD INCLUDING 4 YEAR GRACE PERIOD AT 8.3 PERCENT INTEREST PER ANNUM. BORROWER TO BE INDEPENDENT STATE OF PAPUA NEW GUINEA. EXECUTING AGENCY NATIONAL WORKS AUTHORITY (NWA).

8. CIVIL WORKS CONTRACTS WOULD BE AWARDED ON BASIS OF DOMESTIC COMPETITIVE BIDDING IN ACCORDANCE WITH PROCEDURES SATISFACTORY TO BAK BECAUSE BIGGER LOCAL CONTRACTING FIRMS ARE LARGELY OWNED AND MANAGED BY EXPATRIATES. FOUR OF SEVEN SUCH FIRMS ARE WHOLLY-OWNED SUBSIDIARIES OF FOREIGN FIRMS WHICH HAVE HAD OPERATIONS IN PNG FOR SOME YEARS AND HAVE THE CAPACITY TO UNDERTAKE ALL THREE CONTRACT SECTIONS. ANOTHER LARGE FOREIGN FIRM IS REGISTERED LOCALLY AS A "FOREIGN" FIRM, A PROCEDURE WHICH INVOLVES SIMPLE AND STRAIGHT-FORWARD FORMALITIES AND WHICH ENABLES FOREIGN FIRMS TO BE REGARDED WAS LOCALLY INCORPORATED FIRMS BY NWA INsofar AS THE ISSUANCE OF INVITATIONS TO BID FOR CIVIL WORKS CONTRACTS IS CONCERNED. THREE OTHER MEDIUM-SIZED LOCAL FIRMS HAVE CAPACITY SUITED TO UNDERTAKING ONE OF LIMITED OFFICIAL USE

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THREE CONTRACT SECTIONS AND A NUMBER OF OTHER SMALLER LOCAL FIRMS WOULD BE CAPABLE OF A SIMILAR UNDERTAKING THROUGH APPROPRIATE JOINT VENTURE ARRANGEMENTS. SECONDLY, CIVIL WORKS CONTRACTS INVOLVED IN THE BANK'S FIRST PNG HIGHWAY PROJECT AND IN THE IBRD/IDA-FINANCED PROJECTS ON THE HIGHLANDS ROAD WERE AWARDED ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING. HOWEVER, INTERNATIONAL RESPONSE AT THE PREQUALIFICATION STAGE WAS LIMITED AND IT DECLINED FURTHER AT THE BIDDING STAGE TO THE EXTENT THAT NO FOREIGN CONTRACTOR BID FOR BANK-FINANCED PROJECT AND ONLY ONE SUCH CONTRACTOR BID FOR THE RECENT IDA-FINANCED PROJECT. LOCALLY INCORPORATED CONTRACTORS WON ALL THESE MENTIONED CONTRACTS.

9. NWA, A DIVISION OF DEPARTMENT OF WORKS AND SUPPLY WOULD BE EXECUTING AGENCY. NWA WOULD BE RESPONSIBLE FOR SUPERVISING THE CIVIL WORKS CONTRACTS.

HOWEVER, SINCE MOST OF NWA'S AVAILABLE PROFESSIONAL STAFF ARE COMMITTED TO REGULAR ASSIGNMENTS, NWA WOULD NEED TO RECRUIT A TEAM OF SUITABLE QUALIFIED AND EXPERIENCED ENGINEERS TO FILL KEY POSITIONS IN THE FIELD FOR DURATION OF CIVIL WORKS CONTRACTS. DEPENDING ON THE NUMBER OF CONTRACTORS INVOLVED WITH PROPOSED CONTRACT SECTIONS, IT IS ENVISAGED THAT NWA WOULD NEED TO RECRUIT AN EXPATRIATE SUPERVISION TEAM COMPRISING A RESIDENT ENGINEER, TWO ASSISTANT RESIDENT ENGINEERS, A BRIDGE ENGINEER, TWO PROJECT ENGINEERS AND A SENIOR SOILS TECHNICIAN FOR A TOTAL OF 1974 MAN-MONTHS, APPROXIMATELY.

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 PA-01 PRS-01
H-01 L-03 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01
AGRE-00 /108 W

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R 290921Z NOV 77
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10. OVER 80 PERCENT OF PROJECT BENEFITS WOULD BE IN FORM OF TRANSPORT COST SAVINGS LARGELY ACCRUING TO THROUGH TRAFFIC BETWEEN THE PORT OF LAE AND THE HIGHLANDS. SUCH SAVINGS ARE ESTIMATED TO AMOUNT TO ABOUT K 3.2 MILLION IN FINANCIAL TERMS IN OPENING YEAR. A LARGE NUMBER OF TRUCKING FIRMS, MOST OF THEM QUITE SMALL, OPERATE UNDER FAIRLY COMPETITIVE CONDITIONS. TRANSPORT COST SAVINGS MAY, THEREFORE, BE EXPECTED TO BE SHARED BETWEEN OPERATORS AND USERS OF COMMERCIAL TRANSPORT SERVICES, WHICH ACCOUNT FOR ABOUT 68 PERCENT OF TRAFFIC.

AS USERS OF SUCH SERVICES, THE REGION'S ESTIMATED
175,000 SMALLHOLDERS WOULD BE IN A POSITION TO PARTICIPATE
IN AND BENEFIT FROM THE INCREASED ECONOMIC ACTIVITY IN
THE REGION WHICH PROJECT SHOULD PROMOTE. ECONOMIC
INTERNAL RATE OF RETURN CALCULATED AT 23 PERCENT FOR
PROJECT AS A WHOLE.

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11. USADB COMMENT: STAFF WAS QUERIED ON WHETHER
EXISTING 175,000 SMALLHOLDERS (WHOSE PER CAPITA INCOME IS
ALREADY ABOVE NATIONAL AVERAGE) WOULD INCREASE THEIR
LAND-HOLDING OR WHETHER FORMERLY LANDLESS PEOPLE WOULD
BENEFIT FROM GREATER ACCESS IN RURAL AREAS. STAFF
RESPONDED THAT EXISTING 175,000 SMALL-HOLDERS WOULD
PRIMARILY BENEFIT THROUGH LOWER TRANSPORT COSTS (ACTUALLY
TRANSPORT SAVINGS WOULD TAKE FORM OF DELAY IN INCREASE OF
FRIEGHT CHARGES) RATHER THAN INCREASE IN PLOT SIZE.
STAFF EXPECTS THAT LANDS MADE ECONOMICALLY VAIBLE BY
PROPOSED PROJECT WOULD BE MADE AVAILABLE TO FORMERLY
LANDLESS PEOPLE. NEITHR SIZE NOR NUMBER OF
PLANTATIONS EXPECTED TO INCREASE. SINCE THERE IS
NO PROVATE LAND OWNERSHIP, PLANTATIONS OPERATE AT
SUFFERANCE OF RULING TRIBAL GROUP. PROJECT TECHNICALLY
AND ECONOMICALLY FEASIBLE. RECOMMEND FAVORABLE NAC
ACTION.

12. REQUEST AMEMBASSY PORT MORESBY COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795
DATED 3 JULY 1972.
EDMOND

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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
Sent Date: 29-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
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Review Withdrawn Fields: n/a
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Secure: OPEN
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Subject: ADB HIGHLANDS ROAD IMPROVEMENT PROJECT (PAPUA NEW GUINEA) SUMMARY: ADB MANAGEMENT PROPOSES \$15.0 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES FOR
TAGS: EAID, EFIN, RP, ADB
To: STATE
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vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/c8ce5a20-c288-dd11-92da-001cc4696bcc
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